

Message Text

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ACTION EA-12

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DEPARTMENT ALSO PASS EXIM
HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: N/A
TAGS: EFIN, RP
SUBJECT: PHILIPPINE FOREIGN BORROWING DEVELOPMENTS

REF: MANILA 1945

1. SUMMARY. THE CENTRAL BANK APPARENTLY INTENDS TO BORROW \$500 MILLION, IN TWO PACKAGES OF ABOUT \$250 MILLION EACH. TERMS BEING DISCUSSED ARE ONE PERCENT OVER THE LONDON INTERBANK OFFER RATE (LIBOR) AND TEN YEARS WITH A 3-YEAR GRACE PERIOD. USE OF LOAN PROCEEDS IS NOT FIRMED UP, BUT MARINDUQUE MINING IS THOUGHT TO BE FIRST IN LINE. THE FIRST \$250 MILLION WILL PROBABLY BE MARKETED EASILY. RENEGOTIATING THE \$256 MILLION NUCLEAR POWER LOAN IS BEING CONSIDERED, BUT ACTION MAY BE DELAYED FOR A MORE PROPITIOUS TIME. END SUMMARY.

2. REFTEL DISCUSSED CENTRAL BANK (CB) PLANS TO CONSOLIDATE LOANS INTO LARGE BLOCKS, RELENDING THE PROCEEDS TO END-USERS. (THE CB HAS ABANDONED PLANS TO CONSOLIDATE FOR PRIVATE BORROWERS; LOANS WILL BE FOR GOVERNMENT AGENCIES AND LIMITED OFFICIAL USE

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CORPORATIONS ONLY.) A REPRESENTATIVE OF A LARGE U.S. BANK HAS PROVIDED AN EMBASSY OFFICER WITH INFORMATION ON PHILIPPINE FOREIGN BORROWING DEVELOPMENTS.

3. THE CB WAS CONSIDERING GOING AFTER A "JUMBO" LOAN OF \$500 MILLION, BUT HAS NOW BEEN PERSUADED BY COMMERCIAL BANKERS TO SPLIT IT INTO TWO ISSUES OF \$250 MILLION EACH.

TERMS WOULD BE TEN YEARS, AT ONE PERCENT OVER THE LONDON INTERBANK OFFERED RATE (LIBOR), AND A 3-YEAR GRACE PERIOD. ANY OVERSUBSCRIPTION ON THE FIRST ISSUE WOULD REDUCE THE SIZE OF THE SECOND ACCORDINGLY.

4. USES FOR THE PROCEEDS ARE APPARENTLY NOT YET FIRM, BUT THE SOURCE THOUGHT THAT THE TROUBLED MARINDUQUE MINING AND INDUSTRIAL CORPORATION (MMIC) WAS CLEARLY IN LINE FOR PART OF THE FIRST LOAN. THE GOVERNMENT APPARENTLY INTENDS TO TAKE OVER ALL OF THE PRIVATELY-HELD DEBT OF MMIC, AT THE SAME TIME THAT MATURING DEBTS OF THE CORPORATION ARE ROLLED OVER. ANOTHER CANDIDATE FOR LOAN PROCEEDS IS PHILIPPINE AIR LINES, WHICH HAS PLANS TO PURCHASE NEW EQUIPMENT. SOURCE OBSERVED THAT NOT ALL OF THE LOAN WOULD THEREFORE BE CONSIDERED NEW BORROWING, TO THE EXTENT IT IS USED FOR PREPAYMENT OR IN SOME CASES ROLLOVERS. ANOTHER BANKING SOURCE CLAIMED THAT AT LEAST 51 PERCENT OF THE PROCEEDS WILL BE USED FOR NEW PROJECTS.

5. AS FOR THE BENEFITS OF CONSOLIDATED BORROWING, SOURCE OBSERVED THAT THE END-USERS WOULD GAIN LITTLE ADVANTAGE, BECAUSE OF CHARGES AND FEES WHICH THE CB INTENDS TO CHARGE UPON RELENDING. THERE SHOULD BE SOME BENEFIT IN EASING THE DEBT SERVICE BURDEN, HOWEVER, TO THE EXTENT THAT THE NEW LOANS SUBSTITUTE FOR LOANS OF HIGHER INTEREST AND SHORTER TERM.

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6. THE SOURCE ANTICIPATED THAT THE FIRST \$250 MILLION LOAN WILL SELL "LIKE HOTCAKES", AND CLAIMED THAT THE PROSPECTIVE LEAD MANAGERS HAVE RECEIVED OFFERS OF \$240 MILLION WITHOUT EVEN SOLICITING. HE SAID THAT SEVERAL LARGE AMERICAN BANKS, GERMAN BANKS, AND TWO OR THREE JAPANESE BANKS ARE INTERESTED IN TAKING LEAD POSITIONS. LARGE BANKS SIMPLY FIND THEMSELVES IN A HIGHLY LIQUID POSITION, WITH SLUGGISH DOMESTIC LOAN DEMAND AND HIGH PROFITABILITY IN FOREIGN LENDING (HIS OWN BANK REALIZED 70 PERCENT OF ITS PROFIT FROM FOREIGN OPERATIONS LAST YEAR). ANOTHER U.S. BANKING SOURCE ADVISED THAT 10 LEAD BANKS ARE PREPARED TO TAKE \$20 MILLION EACH.

7. CONCERNING THE \$256 MILLION LOAN FOR THE NUCLEAR POWER PROJECT, THE CB WISHES TO RENEGOTIATE THIS, BUT SOURCE DESCRIBED THE SITUATION AS "MESSY". APPROXIMATELY \$100 MILLION OF THE TOTAL HAS BEEN DRAWN, AND THE CB WAS ONCE CONSIDERING CANCELLING THE REMAINDER AND NEGOTIATING A NEW LOAN. THIS WAS OBVIOUSLY NOT POPULAR WITH THE LENDERS, WHO ARE NOW CONSIDERING MAKING A COUNTERPROPOSAL: AMENDMENT OF TERMS ON THE DRAWN PORTION TO NINE YEARS AND ONE AND 3/8 PERCENT (FROM THE PRESENT TERMS OF 7 YEARS AND ONE AND 3/4 PERCENT),

AND RENEGOTIATION OF THE UNDRAWN DOWN TMF9 YEARS AND ONE
AND 1/8 PERCENT. ACTION ON THIS LOAN IS PROBABLY NOT
IMMINENT; LENDING BANKS HAVE SUGGESTED TO THE CB THAT THIS
IS NOT A FAVORABLE TIME FROM A POLITICAL POINT OF VIEW TO
RENEGOTIATE THE LOAN.
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